

**REPORT OF THE AUDIT OF THE
FORMER BULLITT COUNTY
SHERIFF**

**For The Period
January 1, 2017 through February 28, 2017**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Melanie Roberts, Bullitt County Judge/Executive
The Honorable Dave Greenwell, Former Bullitt County Sheriff
The Honorable Donnie Tinnell, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying Statement of Receipts and Disbursements - Regulatory Basis of the former Sheriff of Bullitt County, Kentucky, and the Statement of Receipts, Disbursements, and Fund Balances of the former Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the period January 1, 2017 through February 28, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable Melanie Roberts, Bullitt County Judge/Executive
The Honorable Dave Greenwell, Former Bullitt County Sheriff
The Honorable Donnie Tinnell, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the Bullitt County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former Bullitt County Sheriff, as of February 28, 2017, or changes in financial position or cash flows thereof or the period then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the former Bullitt County Sheriff and the receipts, disbursements, and fund balances of the former sheriff's operating fund and county fund with the state treasurer for the period January 1, 2017 through February 28, 2017, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2018, on our consideration of the former Bullitt County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

The Honorable Melanie Roberts, Bullitt County Judge/Executive
The Honorable Dave Greenwell, Former Bullitt County Sheriff
The Honorable Donnie Tinnell, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

Based on the results of our audit, we have presented the accompanying Schedule of Findings and Responses, included herein, which discusses the following report comments:

- 2017-001 The Former Bullitt County Sheriff Had Weak Controls Over Payroll Processing
- 2017-002 The Former Bullitt County Sheriff Lacked Adequate Controls Over Drug Buy Funds
- 2017-003 The Former Bullitt County Sheriff Had Weak Controls Over Secondary Employment

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

February 22, 2018

BULLITT COUNTY
DAVE GREENWELL, FORMER SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS

For The Period January 1, 2017 through February 28, 2017

Receipts

State Grants		\$ 18,600
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		28,077
State Fees for Services:		
Sheriff Security Service		38,125
Fiscal Court		
Salary Supplement and DARE Salary	\$ 27,083	
Election Comm & Miscellaneous	35	
Retirement Reimbursement	54,569	
Social Security Reimbursement	16,077	
Insurance Reimbursement	37,509	
Transport Prisoners	<u>3,167</u>	138,440
County Clerk - Delinquent Taxes		7,539
Commission on Taxes	31,209	
Commission on School Taxes	<u>33,193</u>	64,402
Fees Collected for Services:		
Auto Inspections	2,990	
Accident/Police Reports	1,158	
Serving Papers	23,878	
Carry Concealed Deadly Weapon Permits	<u>7,915</u>	35,941
Other:		
Add-On Fees		
Miscellaneous	2,961	
Traffic Court	524	
School Resource Officer	<u>2,364</u>	5,849
Interest Earned		<u>18</u>
Total Receipts		336,991

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
DAVE GREENWELL, FORMER SHERIFF
STATEMENT OF RECEIPTS AND DISBURSEMENTS - REGULATORY BASIS
For The Period January 1, 2017 through February 28, 2017
(Continued)

Disbursements

Payments to State Treasurer:

75% Operating Fund *	\$ 317,115	
25% County Fund	<u>17,764</u>	<u>\$ 334,879</u>

Balance Due at Completion of Audit		<u>\$ 2,112</u>
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* Includes reimbursed expenses in the amount of \$263,824 for the audit period.

BULLITT COUNTY
 DAVE GREENWELL, FORMER SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE FORMER SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Period January 1, 2017 through February 28, 2017

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2017	\$ 164,605	\$	\$ 164,605
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	317,115		317,115
Fees Paid to State - County Funds (25%)		17,764	17,764
Total Funds Available	<u>481,720</u>	<u>17,764</u>	<u>499,484</u>
<u>Disbursements</u>			
Bullitt County Fiscal Court		17,764	17,764
Personal Services-			
Official's Statutory Maximum	22,420		22,420
Deputies' Salaries	515,042		515,042
Employee Benefits-			
Employer's Share Social Security	40,383		40,383
Employer's Share Retirement	136,915		136,915
Employer's Share Health Insurance	76,426		76,426
Contracted Services-			
Maintenance Agreements	13,204		13,204
Supplies and Materials-			
Office Supplies	2,406		2,406
Uniforms/Equipment	11,520		11,520
Other Charges-			
Miscellaneous	17		17
Telephone/Fax/Cellular	6,074		6,074
Training	695		695
Patrol Equipment	22,554		22,554
Transport	2,183		2,183

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
 DAVE GREENWELL, FORMER SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE FORMER SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Period January 1, 2017 through February 28, 2017
 (Continued)

	75%	25%	
	Operating	County	
	Fund	Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
<u>Disbursements (Continued)</u>			
Auto Expenses-			
Gasoline	\$ 17,640	\$	\$ 17,640
Capital Outlay-			
Vehicles	<u>117,142</u>	<u> </u>	<u>117,142</u>
Total Disbursements	<u>984,621</u>	<u>17,764</u>	<u>1,002,385</u>
Fund Balance - February 28, 2017	<u>\$(502,901)</u>	<u>\$</u>	<u>\$(502,901)</u>

The accompanying notes are an integral part of the financial statements.

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS

February 28, 2017

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the state treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in the sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

Also, some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2017 services
- Reimbursements for 2017 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2017

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2017
(Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits

The county official and employees have elected to participate, pursuant to KRS 78.530, in the County Employees Retirement System (CERS), which is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

The sheriff's contribution for calendar year 2015 was \$630,554, calendar year 2016 was \$669,321, and January and February 2017 was \$136,915.

Nonhazardous

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008, are required to contribute six percent of their salary to be allocated as follows: five percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own accounts. Nonhazardous covered employees contribute five percent of their annual creditable compensation. Nonhazardous members also contribute one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A nonhazardous member's account is credited with a four percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008, must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

The county's contribution rate for nonhazardous employees was 18.68 percent for January and February 2017.

Hazardous

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

BULLITT COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 February 28, 2017
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

Members in the plan contribute a set percentage of their salary each month to their own account. Hazardous members contribute eight percent of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A hazardous member's account is credited with a seven and one half percent employer pay credit. The employer pay credit represents a portion of the employer contribution.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008, aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

The county's contribution rate for hazardous employees was 31.06 percent for January and February 2017.

Health Insurance Coverage

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, the employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

BULLITT COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 February 28, 2017
 (Continued)

Note 2. Employee Retirement System and Other Post-Employment Benefits (Continued)

KRS also issues a proportionate share audit report that includes the total pension liability for CERS determined by actuarial valuation as well as each participating county's proportionate share. The Schedules of Employer Allocations and Pension Amounts by Employer report and the related actuarial tables are available online at <https://kyret.ky.gov/Employers/Resources/Pages.aspx>. The complete actuarial valuation report, including all actuarial assumptions and methods, is also available on the website or can be obtained as described in the paragraph above.

Note 3. Deposits

The former Bullitt County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the former sheriff's deposits may not be returned. The former Bullitt County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of February 28, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. State Grant

The former Bullitt County Sheriff's office received a homeland security grant from the Department of Homeland Security in the amount of \$18,600 and the funds were expended, leaving the grant balance of \$0 as of February 28, 2017.

Note 5. Lease Agreements

The former Bullitt County Sheriff's office was committed to the following lease agreements as of February 28, 2017.

Item Purchased	Monthly Payment (*Paid Annually)	Term of Agreement	Ending Date	Principal Balance February 28, 2017
Hardware	3,155	36 Months	11/1/2018	\$ 63,100
Software	2,000	12 Months	6/27/2017	8,000
Software	250	12 Months	10/1/2017	1,750
Vehicles*	88,501	4 Years	7/2/2018	88,501
Vehicles*	44,424	3 Years	5/17/2018	88,848

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2017
(Continued)

Note 6. DARE Account

The former sheriff's office maintained an account for the deposit of donations to be used for drug abuse resistance education (DARE) activities. The balance on January 1, 2017, was \$1,278. During the audit period, receipts totaled \$49 and disbursements were \$0. The balance on February 28, 2017, was \$1,327.

Note 7. State Drug Confiscated Property Account

The former sheriff's office maintained an account for the deposit and disbursement of funds received as a result of property confiscated during drug-related law enforcement activities. These funds are to be expended for law enforcement purposes. The balance on January 1, 2017, was \$1,061. During the audit period, receipts totaled \$1,408 and disbursements were \$595. The balance on February 28, 2017, was \$1,874.

Note 8. Credit Card Account

The former sheriff's office maintained an account for tax and fee credit card payments to the sheriff's office. The balance on January 1, 2017, was \$0. During the audit period, there were receipts and disbursements of \$50,698. The balance on February 28, 2017, was \$0.

Note 9. Federal Asset Forfeiture Account

The former sheriff's office maintained an account for the deposit and disbursement of funds received as a result of cash confiscated during federal drug-related law enforcement activities. The balance on January 1, 2017, was \$16,277. During the audit period, receipts totaled \$652 and disbursements were \$0. The balance on February 28, 2017, was \$16,929.

Note 10. High Intensity Drug Enforcement Unit Account

The former sheriff's office maintained an account for the deposit and disbursement of funds associated with the seizure of funds held until the court system issues orders on what to do with the funds. The balance on January 1, 2017, was \$218,855. During the audit period, receipts totaled \$10 and disbursements were \$0. The balance on February 28, 2017, was \$218,865.

Note 11. Explorer Account

The former sheriff's office maintained an account to run an explorer post. The balance on January 1, 2017, was \$5,204. During the audit period, there were no receipts or disbursements. The balance on February 28, 2017, was \$5,204.

Note 12. Donation Account

The former sheriff's office opened an account to collect donations for bullet proof vests in September 2015. The balance on January 1, 2017, was \$26. During the audit period, receipts and disbursements totaled \$0. The balance on February 28, 2017, was \$26.

BULLITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2017
(Continued)

Note 13. 75% Operating Fund - Deficit Balance

The former Bullitt County Sheriff's 75% operating fund had a deficit balance of \$502,901 as of February 28, 2017. KRS 64.345(4) states in part, "[i]f seventy-five percent (75%) of the amount paid into the State Treasury in any month by any of such officers is not sufficient to pay the salaries and expenses of his office for that month, the deficit may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries and expenses exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his official term." The 75% operating fund has to be settled at the end of the current term, which ends December 31, 2018.

Note 14. Contingencies

The former Bullitt County Sheriff's office was involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant, in the aggregate they could negatively impact the sheriff's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

Note 15. Subsequent Event

The former Bullitt County Sheriff, Dave Greenwell, retired on February 28, 2017. Donnie Tinnell, was appointed to serve as the Bullitt County Sheriff by the Bullitt County Judge/Executive on March 1, 2017.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Melanie Roberts, Bullitt County Judge/Executive
The Honorable Dave Greenwell, Former Bullitt County Sheriff
The Honorable Donnie Tinnell, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts and Disbursements - Regulatory Basis of the former Sheriff of Bullitt County, Kentucky, the Statement of Receipts, Disbursements, and Fund Balances of the Former Sheriff's Operating Fund and County Fund with the State Treasurer - Regulatory Basis for the period January 1, 2017 through February 28, 2017, and the related notes to the financial statements, and have issued our report thereon dated February 22, 2018. The former Bullitt County Sheriff's financial statements are prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the former Bullitt County Sheriff's control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Bullitt County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Bullitt County Sheriff's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-002 and 2017-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Bullitt County Sheriff's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2017-001.

Views of Responsible Official and Planned Corrective Action

The views and planned corrective action for the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

February 22, 2018

SCHEDULE OF FINDINGS AND RESPONSES

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BULLITT COUNTY
DAVE GREENWELL, SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES

For The Period January 1, 2017 through February 28, 2017

FINANCIAL STATEMENT FINDINGS:

2017-001 The Former Bullitt County Sheriff Had Weak Controls Over Payroll Processing

The following weaknesses were noted during payroll testing:

- The former sheriff's office lacked a segregation of duties over payroll processing. The office manager prepared the excel file for each pay period to calculate payroll, and uploads it to the Kentucky Human Resource Information System (KHRIS) for payroll processing with no independent review to ensure pay rates are correct and payroll is calculated correctly.
- Pay rates for employees were not entered into KHRIS.
- Four employees' pay rates tested were not documented in their personnel file and there was no evidence of the sheriff's approval of their pay rates.
- Three employees did not have evidence of their authorization for one or more payroll withholding amount.
- Auditor was told that salary employees are not paid overtime.

The weaknesses over payroll processing occurred because the former sheriff did not implement control procedures over the payroll process to ensure withholdings were authorized, pay rates were authorized and documented in KHRIS, and overtime hours worked were paid to the employee as required by state law. When controls over payroll are weak, employees can be paid incorrectly, either by incorrect hours or using a pay rate that is not authorized. Also, leave balances can be misstated.

KRS 337.285 requires all county employees, whether paid hourly or by salary, to be compensated for working overtime either by receiving additional pay or earning compensatory time.

Strong internal controls dictate that payroll processing functions should be segregated between data entry, approval of payroll before checks are issued, withholdings taken are documented and verified, pay rate changes are documented in personnel files, and authorization is documented.

We recommend the sheriff's office implement procedures to ensure:

- Payroll is calculated by one employee and the sheriff or his designee reviews the calculations to ensure pay rates are correct, calculations are correct, and that payroll is correctly entered into KHRIS.
- Pay rate changes are documented in the employee's personnel file with evidence that the sheriff has authorized any pay rate changes.
- Withholdings authorizations are maintained for each employee to support the amounts withheld on their paychecks.
- Any employee, hourly or salary, who works overtime hours is paid for overtime hours worked.

Former Sheriff's Bookkeeper's Response: We had the same system that is in effect now. One keys, one figures the timesheets, we do not key our own pay. Don't know what we can do different.

Auditor's Reply: Strong controls over payroll dictate the following: (1) a segregation of duties over payroll functions between the input of hours worked, calculation of payroll checks, changes in pay rates in the payroll system, and the issuance of payroll checks. If these controls are not segregated, to reduce the risk of misstatements in payroll due to errors or fraud, it is important that independent reviews be implemented and evidenced by reviewer's initials or signature; (2) all pay rate changes should be approved by the sheriff, with the approval evidenced in writing; and (3) all withholdings made from employees' payroll checks should be adequately supported and evidenced by written approval of the employee.

BULLITT COUNTY
DAVE GREENWELL, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period January 1, 2017 through February 28, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Former Bullitt County Sheriff Lacked Adequate Controls Over Drug Buy Funds

The following control weaknesses were noted during the review of controls and testing of drug buys:

- No independent reviews of balance sheet for drug buys.
- No independent cash counts were performed.
- No support for two withdrawals of cash from the former sheriff's bank account for drug buys; \$2,000 in August 2016 and \$4,000 in December 2016.
- The \$4,000 withdrawn for buy money, mentioned previously, was in the form of a check written to the lieutenant colonel for buy money, not to the bank or for cash.
- Some deputies had small amounts of cash they were holding for drug buys with no official policy on how much to keep, where to secure it when not in use, etc.
- No record or ledger is kept for each deputy performing drug buys to document and track how much money each deputy has on hand for drug buys, resulting in confusion over whether or not a deputy had \$1,000 to use on drug buys. The balance sheet maintained for funds received and used did not provide accurate descriptions for funds being given to a deputy to use and funds being returned when not used.
 - The lieutenant colonel who oversees drug buys kept a balance in his records for each deputy for cash on hand, but did not maintain support for the balances.
 - There was an error in tracking the use of \$1,000 for drug buys on July 29, 2016, that resulted in more money being requested in November 2017 for the same transaction.

The former sheriff was not aware of significant controls needed over cash used for drug buys which should include:

- having ledgers prepared and maintain to document deputies' use of funds for drug buys to reflect the amount they have on hand,
- having ledgers reviewed for accuracy and completeness,
- having supporting documentation reviewed to ensure there is adequate documentation to show how funds are used, including if a deputy returns funds he has out for drug buys, and
- performing and documenting random cash counts, agreeing cash on hand to amount reported on the ledgers for that date.

Without implementing controls over cash used for drug buys, there is a significant risk that cash used for drug buys may be misappropriated. Strong internal controls dictate that cash used for drug buys and related transactions should be recorded accurately on ledgers, adequately supported with documentation showing use of funds or return of funds by deputy, and to ensure that cash on hand is secured in the sheriff's office, and agrees to the supporting ledgers.

We recommend the sheriff's office:

- Develop and implement policies to document how much funds each deputy performing drug buys is permitted to maintain on hand at a time, including that the funds held should be maintained and secured in the sheriff's office at all times,
- Develop and implement a document for the lieutenant colonel to complete to request funds from the sheriff's bank account to use for drug buys, and
- Ensure checks for drug buy funds are written to cash or to the bank, not a specific person.

BULLITT COUNTY
DAVE GREENWELL, FORMER SHERIFF
SCHEDULE OF FINDINGS AND RESPONSES
For The Period January 1, 2017 through February 28, 2017
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2017-002 The Former Bullitt County Sheriff Lacked Adequate Controls Over Drug Buy Funds (Continued)

We recommend the following for the sheriff or his designee:

- Develop and maintain ledgers for each deputy who performs drug buys, to calculate the balance of cash available, including the date and amount of each transaction they complete for drug buys and if they return any funds not used,
- Conduct and document independent reviews of the drug buy ledgers for each deputy to ensure they are complete and accurate, and
- Conduct and document independent cash counts for funds held by the deputies for drug buys.

Former Sheriff's Bookkeeper's Response: The Drug Task Director has a plan in effect to correct this problem.

2017-003 The Former Bullitt County Sheriff Had Weak Control Over Secondary Employment

The former Bullitt County Sheriff did not maintain disclosures of outside employment for employees as is required by his office policy on secondary employment. The auditor was told by a sheriff's employee that he and another employee had outside employment. Upon review of the outside employment disclosures, the auditor did not find disclosures for those two employees. There were a few disclosures provided by the chief deputy, additional disclosures provided by another sheriff's employee, and a few noted in personnel files.

The former Bullitt County Sheriff did not adhere to his office secondary employment policy, resulting in increased risk that the sheriff's employees worked outside employment and did not notify and receive approval from their supervisor, and that the employees could have worked their outside employment while reporting that they worked time for the sheriff's office so they could have been paid by both employers for the same hours worked.

The former sheriff's secondary employment policy required those deputies with outside employment to provide written notice to describe the type of work performed and the maximum number of hours per week the employee will engage in the outside employment. Also, the policy required the employee to receive approval of the employment through their chain of command and final approval by the former sheriff. (Section IV, B, C).

We recommend the sheriff's office review the secondary employment policy with all employees and ensure that each employee who has outside employment completes a disclosure, and obtains written approval from the supervisor and the sheriff, according to the policy. We also recommend the sheriff's office ensure all outside employment disclosures are kept on file for all employees.

Former Sheriff's Bookkeeper's Response: No response provided.